AB 52

EDITORIAL

Watching the health insurers

A bill would let state regulators block rate hikes they consider unreasonable, just as they can do for most other types of insurance.

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(Alex Nabaum, For The Times)

April 26, 2011

Over the past year, two major health insurers in California have proposed eye-popping rate increases, only to settle for smaller hikes after a public outcry. Now lawmakers are considering a proposal to let state regulators block rate hikes they consider unreasonable, just as they can do for most other types of insurance. Indus□try lobbyists argue that premiums are rising not because they're profiteering, but because healthcare costs are climbing. That's certainly part of the explanation. But lawmakers should still approve the bill, because it would plug a troubling gap in the healthcare reform effort.

As of Jan. 1, insurers must give California regulators 60 days' notice of any premium increase, and must have independent actuaries determine whether their rates are reasonable. But state law doesn't give the Department of Managed Health Care, which regulates HMOs, or the Department of Insurance, which oversees other insurance company offerings, the power to stop excessive or unreasonable rates from going into effect. All they can do is cajole insurers to scale back increases or seek rebates later if the new federal limits on administrative expenses aren't met.

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The bill by Assemblyman Mike Feuer (D-Los Angeles), AB 52, would apply the same approach to health coverage that the state applies to auto and homeowners' policies. Regulators would have the power to review new rates before they went into effect and reject premiums that were excessive, inadequate or unfairly discriminatory.

Insurers say they're not to blame for skyrocketing premiums — the real cause is the rapid increase in healthcare costs. In addition, their overhead is limited by the new federal healthcare law, which requires them to spend at least 80% of their premiums on medical costs. Finally, they say the competition among insurers is intense enough to prevent price-gouging.

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The fundamental problem with the current system, though, is that insurers and healthcare providers have a shared incentive to raise premiums. Providers want insurers to pay more to offset stingy Medicare and Medicaid reimbursements. And the new federal caps on overhead mean that the easiest way for insurers to increase revenue is to promise more to doctors and hospitals,which would justify proportionally higher administrative expenses and profits.

Insurance Commissioner Dave Jones, who sponsored similar bills when he was in the Assembly, argues that AB 52 would let regulators combat the cycle of ever-increasing premiums by pressing insurers to strike better deals with providers. Those could include new risk-sharing arrangements that reward providers for keeping patients healthy, rather than basing their pay on the number of procedures they perform.

Just as important, the new healthcare law requires American adults to buy coverage, giving insurers the same kind of captive market they enjoy for auto policies — a market that's even more competitive than health insurance. That's a compelling reason for regulators to provide the same level of scrutiny to health premiums as they do to auto rates.

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LiberalReason at 1:13 PM April 27, 2011
Insurances have a captive market. You can't just switch providers - if you have any kind of health history they'll either straight out deny you or charge more than anyone can afford. So they shouldn't be allowed to raise rates either. The whole idea of insurance other than a blind pool is nonsense. If they want to know your condition and insure you accordingly, you're screwed.

rjbischof at 12:04 PM April 27, 2011
@pogi455 The cognitive failure here is that insurance, whether run by independent corporations or government agencies, ultimately must be actuarially sound. The latter may circumvent reality for generations by exempting itself from GAAP rules it enforces on private industry but eventually it will exhaust all revenues due to lack of market forces and begin

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